QUICK RESPONSE AUDITING

...techniques for delivering reliable answers in time to make a difference...

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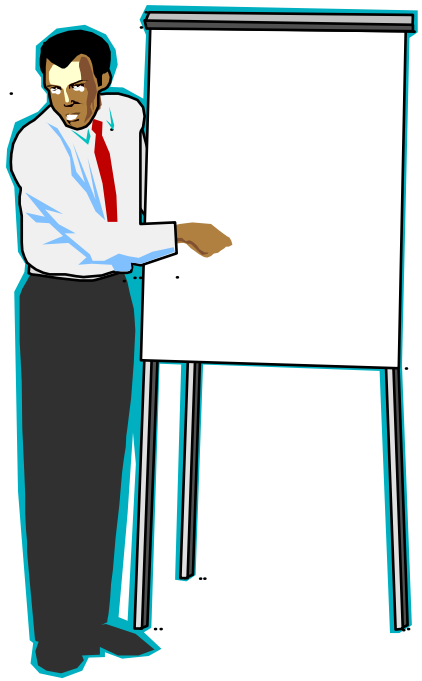
QUICK RESPONSE AUDITING OVERVIEW



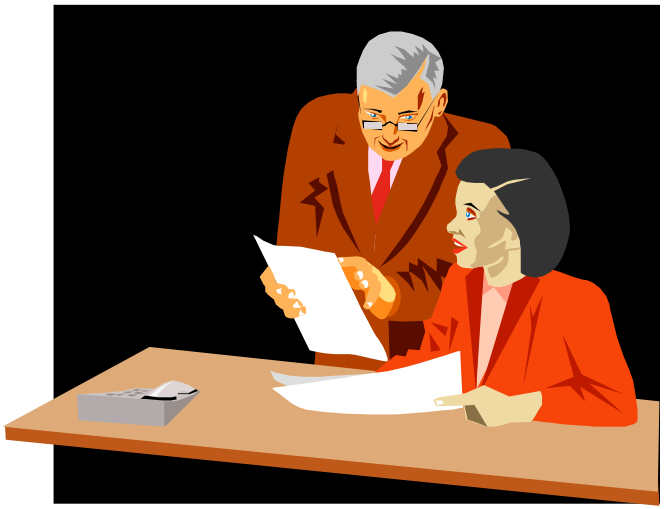
- *Impact of Dynamic Change*
- *Meeting Customer Needs*
- *QRA: Definition and Conditions*
- *QRA IAW GAGAS*
  - *General Standards*
  - *Field Work Standards*
  - *Reporting Standards*
- *Advantages/Disadvantages*

ELEMENTS OF CHANGE IMPACTING PUBLIC SECTOR AUDITING

- *Digital Technology*
- *The Global Market*
- *Demise of "Big Government"*
- *Performance Measurement*
- *Reengineering the Implications for Risk*
- *Legislative Initiatives*

QUICK RESPONSE AUDITING

AUDIT CLIENTS HAVE CHANGED TOO!



- *Value Based*
- *Strategists*
- *Technologically Literate*
- *Skeptical*
- *Impatient*
- *Versatile*
- *Demanding*

"You're in trouble when management doesn't understand internal auditing or how to manage it. You must make yourself part of the reengineering."
Walter N. Coleman
Coopers and lybrand

QUICK RESPONSE AUDITING

"To foster innovation within our own offices, we will experiment with innovative analytical techniques and reporting formats... (and) ...consult with our customers so that we may provide the types of OIG analysis and services that best enable them to promote economy, effectiveness, and efficiency in government programs."

Inspectors General Vision and Strategies to Apply our Reinvention Principles

JANUARY 1994

AUDIT ORGANIZATIONS ARE "BRANCHING OUT"

QUICK RESPONSE AUDITING

DEFINING THE QUICK RESPONSE AUDIT!

- *Performance Audit*
- *Done at Client Request*
- *Known or Suspected Problem/Opportunity*
- *Limited Objectives*
- *Limited Scope*
- *Time Is of the Essence*
- *Extensive Details Not Necessary*
- *Flexibility of GAGAS Permits*

"A carefully prepared report may be of little value to decision makers if it arrives too late. Therefore auditors should ...Conduct the audit with this goal in mind."

GAGAS - PARA 7.7

GAGAS: THE GENERAL STANDARDS

- *BROAD STANDARDS*
  - *QUALIFICATIONS*
  - *INDEPENDENCE*
  - *DUE PROFESSIONAL CARE*
  - *QUALITY CONTROLS*
- *FOUNDATION OF PROFESSIONAL CREDIBILITY*
- *PRODUCT NEUTRAL*
- *VITAL IN QRAs*

"Auditing provides credibility to the information reported by or obtained from management through objectively acquiring and evaluating evidence."

GAGAS - Para 1.13

QUICK RESPONSE AUDITING

QUALIFICATIONS

- *Critical in QR Auditing*
- *Staff Assigned Should Be:*
  - *Experienced in QR Auditing*
  - *Experienced in the Function*
  - *Strong Analysts*
  - *Effective Communicators*
  - *Flexible*
- *Supervision Important for Inexperienced Personnel*

"The staff assigned to conduct an audit should collectively possess adequate professional proficiency for the tasks required."

GAGAS - para 3.3

QUICK RESPONSE AUDITING

INDEPENDENCE

- *Unique Challenge in QRAs*
- *Client Request Based on Preconceptions*
- *Auditor Must Not Be Influenced to Provide Desired Outcome*
- *Support Client but Maintain "Arms-Length" Relationship*
- *When Independence Not Maintained - Qualify Report*

"In all matters relating to the audit work, the audit organization and the individual auditors...Should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance."

GAGAS - PARA 3.11

QUICK RESPONSE AUDITING

DUE PROFESSIONAL CARE

- *Due Professional Care Highly Subjective*
- *Imposes Responsibility to Follow GAGAS*
- *Use Sound Judgment in :*
  - *Establishing Scope*
  - *Selecting Methodology*
  - *Choosing Tests and Procedures*
- *Client Dictate of Scope, Methodology, or Tests and Procedures May Compromise Due Professional Care*

"Due Professional Care Should Be Used in Conducting the Audit and in Preparing Related Reports."

GAGAS - Para 3.26

GAGAS: THE FIELD WORK STANDARDS

- Govern the Audit Process
- Correlate to Audit Sequence
  - Planning
  - Supervision
  - Compliance With Laws and Regulations
  - Management Controls
  - Evidence
- Extensive QRA Application

The "comprehensive nature of auditing also highlights the importance of auditors clearly understanding the audit objectives, the scope of the work to be conducted, and the reporting requirements."

GAGAS - Para 1.13

QUICK RESPONSE AUDITING

PLANNING

- Critical in QR Process
- Must Include:
  - Audit Team
  - The Client
  - Activity Personnel
- Focused on Client Needs
- Must Encompass the Entire Audit Process

"Work is to be adequately planned."

GAGAS - Para 6.2

QUICK RESPONSE AUDITING

PLANNING - DETERMINING OBJECTIVES

- QRAs LIMITED TO ONE OR TWO OBJECTIVES
- OBJECTIVE(S) GUIDED BY WHAT THE CLIENT WANTS TO KNOW:
  - VALIDATION OF A PROBLEM
  - CAUSES OF SUB-OPTIMAL PERFORMANCE
  - PROPOSED SOLUTIONS
- NUMBER OF OBJECTIVES WILL DIRECTLY IMPACT TIMELINESS OF AUDIT REPORT
- IF THE AUDIT DISCLOSES SERIOUS IRREGULARITIES SUCH AS FRAUD OR ILLEGAL ACTS:
  - STOP AS QRA AND EXPAND OBJECTIVES

    OR
  - INITIATE SEPARATE EFFORT

"Audits concerned with economy could focus on efforts, that is, were resources obtained at an optimal cost and at an appropriate level of quality."

"Audits concerned with efficiency could focus on the program operations or the relationship between efforts (resources used) and either outputs or outcomes..."

"Program audits could be concerned with whether program outcomes met specified goals or whether outcomes were better than they would have been without the program."

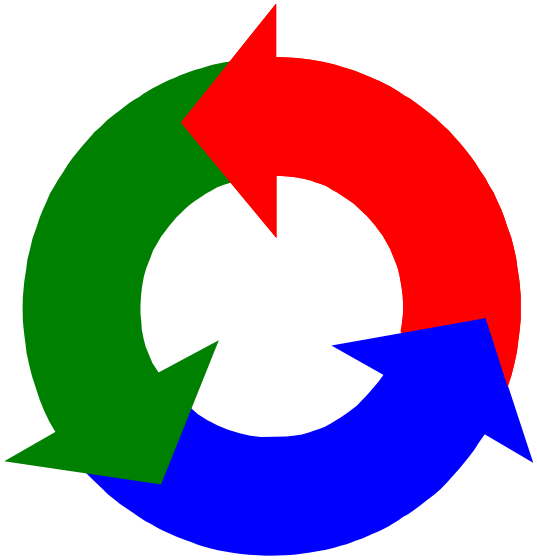
PLANNING - DETERMINING SCOPE

- Scope Should Be Limited to the Extent Necessary to Satisfy the Objective(S)
- For Example:
  - Limit Time Period (Last Month Instead of Last Year)
  - Limit Number of Locations (One Repair Facility Instead of All)
  - Limit Number of Transactions Examined (Use Sampling, Limit Sample Size and Confidence Level)
  - Limit Number of Interviews
  - Limit Inquiry to Known

"Planning should continue throughout the audit. Audit objectives, scope, and methodologies are not determined in isolation. Auditors determine these three elements of the audit plan together, as the considerations in determining each often overlap.."

PLANNING - AUDIT FOLLOW-UP

- Previous Audits Provide Excellent Background
- QRA Objective(s) May Satisfy Follow-up Requirement
- To Ensure Timeliness Formal Follow-up May Be Omitted
- Audit Report Should Be Qualified If No Follow-Up



"Auditors should follow up on significant findings and recommendations from previous audits that could affect the audit objectives."

PLANNING - RELYING ON OTHERS' WORK

- May Include:
  - Other Auditors
  - Inspectors
  - Consultants
  - Experts/Specialists
- Can Save Significant Time
- May Contain Useful Information When Planning a QRA
- May Rely on to Limit Extent of Testing
- Perform Procedures to Provide Basis for Reliance

"Whether other auditors have done performance audits or financial audits, they may be useful sources of information for planning and performing the audit."

COMPLIANCE WITH LAWS AND REGULATIONS - GENERAL

- Pay Close Attention to Language in Standard
- "When...Significant to Audit Objectives"
- This Standard Applies If the Client Seeks to Validate:
  - Allegation of Wrongdoing
  - Suspected Fraud

"When laws, regulations, and other compliance requirements are significant to audit objectives, auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse."

GAGAS - PARA 6.26

MANAGEMENT CONTROLS

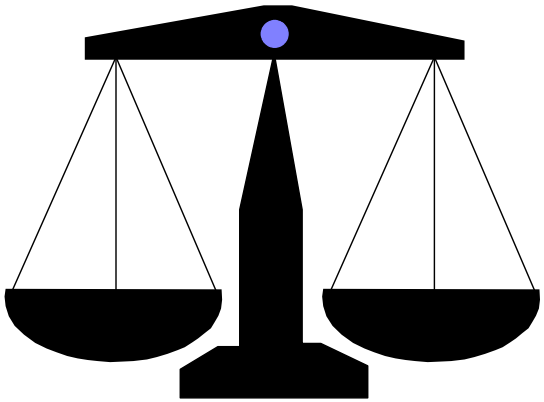
- Only Controls "That Are Relevant to the Audit" Need Be Reviewed
- Controls May Be Examined As:
  - The Audit Subject
  - As Potential Causes
- Some Controls Must Be Reviewed - If Causes Are to Be Identified
- If Controls Are Not Reviewed:
  - Document Reasons
  - Identify in Report

"Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls."

GAGAS - Para 6.39

EVIDENCE - GENERAL

- THE EVIDENCE STANDARD APPLIES IN QRA's
- AUDITOR MUST BE PRUDENT
- OVER DOCUMENTATION CAN UNDERMINE QRA TIMELINESS
- LIMIT EVIDENCE TO SATISFYING OBJECTIVES



"Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions."

GAGAS - PARA 6.46

QUICK RESPONSE AUDITING

EVIDENCE (WORKING PAPERS)

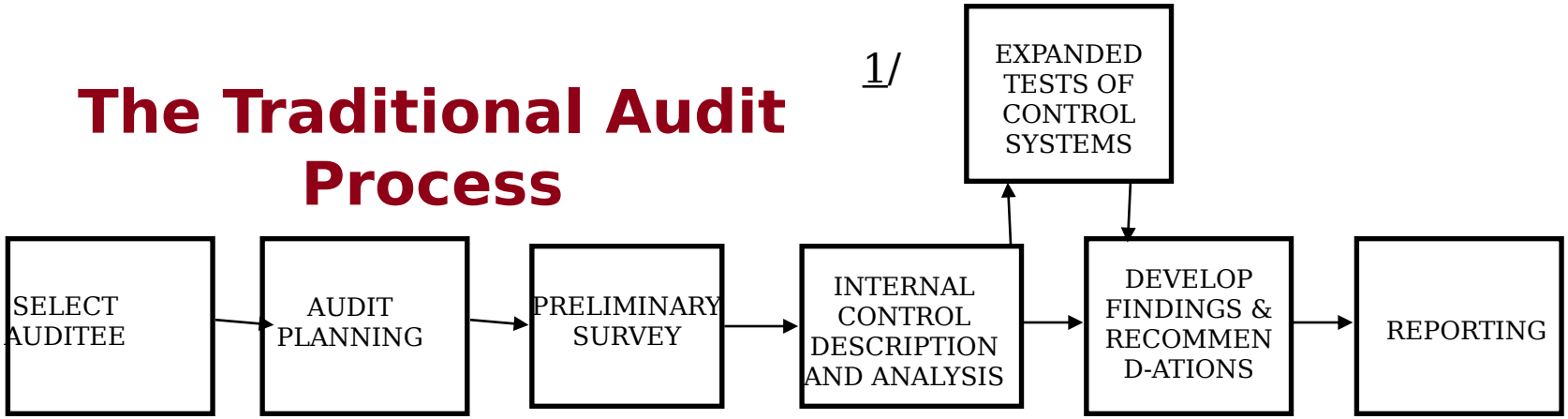
- SERVE THREE PURPOSES
  - SUPPORT AUDIT RESULTS
  - AID IN SUPERVISING
  - QUALITY CONTROL REVIEWS
- DOCUMENT EVIDENCE TO SUPPORT SIGNIFICANT CON-CLUSIONS AND JUDGMENTS
- FOR QRA's - BRIEF AND TO-THE-POINT

"When this work includes examination of auditee records, the working papers should describe those records so that an experienced auditor would be able to examine those same records."

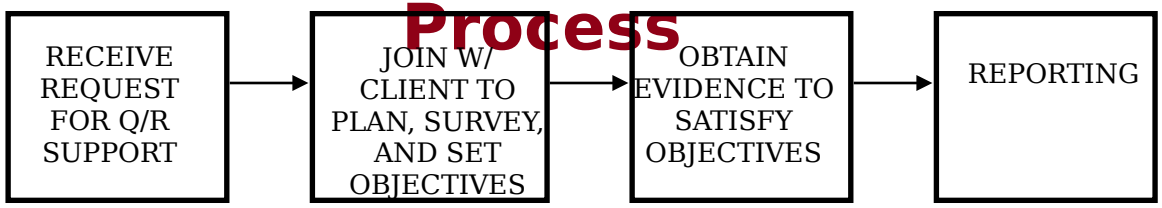
FOOTNOTE TO GAGAS - PARA 6. 46

QUICK RESPONSE AUDITING

The Traditional Audit Process



The Quick Response Audit Process


RECEIVE REQUEST FOR Q/R SUPPORT
JOIN W/ CLIENT TO PLAN, SURVEY, AND SET OBJECTIVES
OBTAIN EVIDENCE TO SATISFY OBJECTIVES
REPORTING

1/ Internal Auditing, Principles And Techniques (Second Edition) Page 184, (C) 1996,The Institute Of Internal Auditors, Altamonte Springs, FL

QRA REPORT FORMAT

- **Primary Objective:** Conveying Timely, Reliable, and Relevant Information to Client
- **Acceptable Formats:**
  - Written
  - Briefing
  - Electronic
  - Video
  - Combination
- **Results Should Always Be Retrievable**

" Audit reports may be presented on other media that are retrievable by report users and the audit organization. Retrievable audit reports include those which are in electronic or video formats."

FOOTNOTE TO GAGAS - PARA 7.3

TECHNIQUES FOR WRITING MORE TIMELY REPORTS

- Share Audit Results With Client "As You Go"
- Eliminate Levels of Review
- Extract Written Synopsis From Working Papers
- Use Team Writing
- Use Report Conference
- Minimize Extensive

"A carefully prepared report may be of little value to decision makers if it arrives too late."

GAGAS - PARA 7.7

COMPARING AUDIT PRODUCTS

TYPE ENGAGEMENT	COMPLIANCE WITH GAGAS	RISK OF ERROR IN FINDINGS/RESULTS	TIMELINESS OF RESULTS	ENGAGEMENT COST
FULL SCOPE AUDIT	FULL	NONE/MINOR	LOW	HIGH
QUICK RESPONSE AUDIT	FULL - MAYBE WITH QUALIFICATIONS	LOW TO MEDIUM	MEDIUM TO HIGH	LOW
CONSULTING & ADVISORY	LIMITED TO NONE	MEDIUM	HIGH	LOW TO MEDIUM

SUMMARY:

- *QRAs Meet Changing Customer Demands*
- *QRAs are:*
  - *Customer Requested*
  - *Known/Suspected Problem*
  - *Limited Scope/Objective*
- *General Standards Apply*
- *Field Work Standards Generally Apply*
- *Planning and Reporting: Critical Phases in QRA Engagements*
- *QRAs: More Timely; Less Costly; Slightly Higher Risk*